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C O N F I D E N T I A L SECTION 01 OF 03 AMMAN 001472

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TAGS: [SENV](#) [EAGR](#) [EAID](#) [ENRG](#) [PGOV](#) [PREL](#) [KNNP](#) [JO](#) [IS](#)
SUBJECT: GOJ SEEKS USG SUPPORT FOR JORDAN-ONLY RED SEA
DEVELOPMENT PROJECT

REF: A. A. AMMAN 1219
[1](#)B. B. AMMAN 1116
[1](#)C. C. AMMAN 1027
[1](#)D. D. AMMAN 860
[1](#)E. E. AMMAN 508

Classified By: Ambassador R. Stephen Beecroft for reasons 1.4 (b) and (d)

[1](#)1. (C/NF) SUMMARY: Despite the ongoing multilateral World Bank led Red Sea - Dead Sea Feasibility study (RDS), on May 17 Jordan announced a unilateral \$10 billion Jordan Red Sea Development Project (JRSP). The GOJ sees a Red Sea - Dead Sea conveyance mechanism as the best way forward to solve its water woes, but frustrated by the World Bank's slow pace has engaged the U.S. engineering firm Montgomery Watson Harza (MWH) to plan the Jordan-only JRSP. Phase 1 of the JRSP projects the start of water delivery by 2014 at a price-tag of \$2.5 billion. Although the JRSP is to be private sector financed, the GOJ and MWH are trying to rally USG support for the JRSP (noting that a USG vote of confidence will spur private sector investment) and also seeking USG financing from MCC, OPIC, USAID, EXIM Bank, and other potential channels. The USG position to date has been that we need to await the results of the World Bank RDS prior to taking a position on the merits of any proposed implementation. Post believes we should maintain that stance despite the likely increased pressure from the GOJ. END SUMMARY.

Jordan Decides to Go It Alone on Red-Dead Project

[1](#)2. (SBU) The ongoing multilateral World Bank led Red Sea - Dead Sea Feasibility study (RDS) includes Jordanian, Israeli and Palestinian participation (ref B). Despite this multilateral framework, on May 17 Jordan announced a unilateral \$10 billion Jordan Red Sea Development Project (JRSP) to convey water from the Red Sea to the Dead Sea, generate hydropower, operate a desalination plant, and provide potable water for Jordan (and potentially for Israel and the Palestinian Authority, according to Jordan). The lead vendor for this project, MWH, has proposed an initial \$2.5 billion Phase 1 to be completed by 2014. Phase 1 would

also send 50 MCM of desalinated water to Amman by 2014 using the Disi pipeline (ref C) with a longer term goal of supplying 80 MCM of fresh water to Jordan's proposed first nuclear reactor in Aqaba (estimated for 2017-2020). (Note: The Disi water conveyance proposes to convey 100 MCM of water from the Disi fossil aquifer on the Jordanian-Saudi Arabia border to Amman. The project is partially financed by OPIC. End Note.)

¶3. (C/NF) The JRSP project is intended to create a synergy between Jordan's energy and water needs and potential solutions - but with currently unknown consequences. Jordan's ambitious nuclear energy plans could require up to 350 MCM of fresh water for cooling. The JRSP in turn has a 725 MW energy deficit for pumping water to Amman. Based on the King's direction, the water and nuclear energy constituencies are partnering to support each other through the JRSP. The JRSP vision also includes plans for three new cities (near Amman, Dead Sea, and Aqaba) of 1.2 million total residents and the establishment of new industries to build steel pipes, desalination membranes, and provide chlorine to supply the JRSP as well as the region. MWH stresses that the developmental aspects of the JRSP result in viable financial models and boost the economic development rationale for the JRSP.

¶4. (C/NF) The water conveyance elements of the JRSP are similar to the World Bank-led RDS plan to which the USG has contributed \$1.5 million. For example, both projects are predicated on conveying water from the Red Sea to the Dead Sea, generating hydropower, desalinating water for Jordan,

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and resuscitating the Dead Sea water levels with brine from the desalination plants. To date, the USG has maintained that we need to see the results of the World Bank RDS before we can take a position on the possible merits of any Red Sea - Dead Sea project. Post has reevaluated this position and recommends it be maintained, despite the JRSP announcement.

MWH Pitches the Project to USG

¶5. (C/NF) MWH representatives, accompanied by Ministry of Water and Irrigation Secretary General Maysoon Zubi and Chairman of the Jordan Atomic Energy Commission Dr. Khaled Toukan, provided a JRSP briefing for Post on June 21. MWH stressed that USG support for the JRSP is important for the project's success, and would also provide a strong boost to help raise private financing. (Note: MWH noted the Embassy briefing was similar to that provided recently to the Department. MWH also claimed it expected to provide a briefing to Secretary Clinton in the future. End Note.) MWH, supported by the GOJ, has portrayed the JRSP as critical to Jordan's future water and energy needs which are tied to its economic development and social stability - and hence inherently worthy of USG political and financial support.

¶6. (C/NF) MWH has requested the following possible forms of USG support:

- USG interagency coordination of efforts to support Jordan's National Water Strategy and the JRSP;
- Designation of a source such as the MCC, USAID, or U.S. TDA to provide a grant to help design JRSP Phase 1;
- Recruitment of support from bilateral and multilateral banks for JRSP including OPIC and EXIM Bank;
- Consideration of ways for the USG to buy some of the water produced from JRSP for its use in addressing water scarcity issues in the region.

World Bank Surprised and Defensive

¶7. (C/NF) Meetings with World Bank and other RDS donors revealed a high degree of surprise at the Jordanian announcement, anger at being kept in the dark about the

Jordanian plans, and confusion about how the JRSP and RDS compete or complement each other. The World Bank does not believe JRSP Phase 1 can be combined with the RDS since the RDS terms of reference do not include provisions for supplying water to nuclear power plants or the development of economic zones. Technical clashes are also likely: the Gulf of Aqaba intake location proposed by JRSP is a choice that the World Bank consultants have cautioned against due to seismic risks and flooding potential. As a result of the JRSP announcement, the World Bank has suspended the start of new technical sub-studies until there is further clarity on the JRSP. This could further delay the RDS beyond the projected early 2011 completion target.

A Financing Project - Not an Engineering Project

¶18. (C/NF) MWH portrays the JRSP as a financing challenge, rather than an engineering one. MWH needs to raise the necessary \$2.5 billion in financing for Phase 1 by June 2010 to meet the scheduled 2014 Phase 1 completion. Most elements of the financing plan are tied to private sector participation including economic development plans, supplier financing, equity investments, and revenues from water sales. According to MWH, the JRSP pumping stations, likely to be the largest in the world, can only be built by 2 Japanese companies - which could get Japanese supplier financing. Given the project magnitude, MWH has also proposed setting up steel pipe, desalination membrane, and chlorine industries in Jordan to supply the JRSP as well as regional needs, further contributing to the economic development and employment

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rationale for the project. MWH expects that a master financier would be appointed to lead and coordinate the JRSP financing elements. Despite its reiterations that the JRSP is a private-sector financed initiative, MWH is seeking possible USG funding support as outlined in para 6.

¶19. (C/NF) The longer term financing plan for the full JRSP Project (estimated at 35-40 years implementation) is currently targeted to be \$11.5 billion with annual operational costs of \$0.5 billion. MWH projects that 60% of the JRSP operational costs could be supported from water revenues, 30% from the economic development zones that would be established along the conveyance route, and 10% from new taxes.

Post Analysis - MWH Riding Wave of GOJ Fears

¶10. (C/NF) Comment: The GOJ has long expressed its frustration at the slow pace of the World Bank study, the lack of viable funding scenarios for follow on project implementation, and the inherent difficulties of regional cooperation. GOJ desperation on scarce water and energy issues has led both the water and nuclear energy camps to sign-up to the MWH vision of an expedited financing and engineering solution to alleviate many of their woes. MWH in turn is feeding off this GOJ desperation and, selling itself as Jordan's savior, has secured a seemingly carte-blanche mandate to rally USG and other support to raise the necessary financing.

¶11. (C/NF) While there is some logic to the MWH Phase 1 approach as well as the incorporation of development projects to increase the financial viability, the GOJ's history of failed visions and projects makes it unlikely that Phase 1 will happen on time, on budget, and meet expectations. Furthermore, MWH has also likely taken a few short-cuts while selling this expedited project and many environmental and engineering issues are yet to be designed, analyzed, or accounted for. While the GOJ has characterized the JRSP as a Jordan-only project (with Israeli acknowledgement), any project that affects shared Gulf of Aqaba and Dead Sea

resources is bound to be subject to regional pressures as well.

¶12. (C/NF) Post expects there will be increasing pressure in Jordan and potentially in Washington for USG support for the JRSP. However, Post believes it prudent to await the results of the World Bank led RDS study before determining the merits, and offering support or contributing financially or otherwise to any implementation solution. End Comment.

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Beecroft